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E.O. 12958: N/A
TAGS: ENRG PREL ECON PGOV CO
SUBJECT: BIOFUELS IN COLOMBIA

REF: SECSTATE 164558

¶1. Summary: To conserve domestic petroleum resources and provide a boost to Colombia's sugar sector, Colombian law mandates that 10/90 ethanol be made available for purchase in Colombia's five largest cities by the end of 2006, and throughout the country by 2012. Colombia's sugar industry produces nearly 100 million gallons of ethanol per year, and plans to double this amount by the end of 2008. Currently, domestic production of ethanol slightly exceeds demand, while the industry's planned expansion should allow sufficient supply to convert all gasoline sales in Colombia to 10 percent ethanol by 2012. It is unclear how much excess capacity will be available for export as ethanol capacity is limited given the relative profitability of raw sugar. Other Colombian producers are experimenting with biodiesel created from yucca and palm oil for domestic use or export to the United States. Colombia's investment climate is improving, as new laws, regulations, and tax incentives are making ethanol production an economically viable energy alternative. Colombia's geography and poor physical infrastructure are limiting factors in the efficient distribution of fuel, including ethanol. End Summary.

Colombia Law Requires Ethanol Use

¶2. As a means to extend Colombia's status as a net oil exporter, and to support its well developed sugar industry, Law 693 of September 2001 requires the Colombian government to develop a comprehensive biofuels program. Law 693 requires gasoline providers in cities with populations greater than 500,000 to offer a 10/90 ethanol mix by the end of 2006, with a gradual phase-in of the requirements to smaller cities and rural areas by 2012. The GOC's ethanol roll-out began in 2005 in the southwest and Colombia's coffee region in late 2005, and now includes the departments of Cundinamarca, Meta, Casanare, and Boyaca. Bogota joined the program in February 2006, while Medellin, Bucaramanga, Cartagena, Cucuta, and Pereira will begin offering 10/90 by the end of 2006.

Big Sugar in Colombia

¶3. Colombia's sugar growers produce 2.4 million tons of sugar per year. The Cauca River Valley is home to 197,000 hectares of sugarcane and 14 sugar mills. The mills are technologically advanced, and electrically self-sufficient via secondary co-generation, which allow sugar mills the opportunity to sell excess power to the local grid. Sugarcane burning is generally permitted. Mechanical

harvesting is not yet a common practice in Colombia. The industry employs 27,000 people directly and supports 141,000 workers indirectly through associated relationships. While the industry exports 400,000 tons of sugar a year, ethanol exports have been limited due to domestic consumption requirements and delays in bringing new ethanol plants on line. It is unclear if Colombia's sugar industry is prepared to alter its raw sugar to ethanol production ratio to accommodate ethanol exports, especially given the increased sugar quota (75,000 tons) that producers plan to fill under the free trade agreement (FTA) with the U.S. Colombian ethanol is currently allowed to enter the U.S. duty-free under the Andean Trade Preference and Drug Eradication Act (ATPDEA), and duty-free treatment will continue for ethanol with the FTA.

Other Sources of Biofuel

¶4. In addition to ethanol from sugarcane, Colombian agricultural producers are evaluating the possibility of supplying ethanol made from yucca root. Two plants are currently under construction with a combined capacity of 32,000 gallons, and should be on line in mid-2007. In addition to ethanol, the GOC is also promoting the use of biodiesel, with most attention focused on African Palm oil. Although Colombia currently has no domestic capacity to produce diesel fuel from palm oil, the GOC hopes to begin production by 2008.

Tax Incentives for Biofuels

¶5. Ethanol is exempt from federal and state taxes in Colombia. In addition, in 2006 the GOC provided over USD 40 million in tax incentives for businesses involved in biofuel production. In 2007, in addition to tax incentives, the GOC has earmarked USD 30 million USD for special grants to promote locating ethanol plants in less developed areas (such as the Pacific Coast).

140,000 Vehicles Run on Natural Gas

¶6. The Colombian government promotes natural gas automobile, bus, and taxi fleets. According to GOC statistics, nearly 140,000 vehicles use natural gas, including the new Bus Rapid Transit (BRT) systems found in major cities throughout Colombia. Natural gas fueling stations are now common in larger cities, and over 4,000 gasoline to natural gas conversions are made to vehicles each month.

Investment Climate, Energy Infrastructure, and Industrial Infrastructure

¶7. The Uribe administration stepped up the economic liberalization begun in the early 1990's and is committed to an open investment regime. There are few general restrictions on land or other property ownership, and the Colombian constitution guarantees the rights of private property holders. Colombia is privatizing its state-owned natural gas distribution company and some of its electrical power and transmission companies. American energy companies such as ExxonMobil, Occidental Oil and Drummond Coal have multi-million dollar investments in the exploration and extraction of Colombian energy. With the improving security situation, many more American companies are exploring investment opportunities in the Colombian energy market.

¶8. Colombia generates two thirds of its electrical power from hydro-electric sources. The other third is from thermo-electric sources such as gas or coal . Colombia is actively trying to increase its thermo-electric capacity by 50 percent by 2010 due to continuing drought issues that have

resulted in electrical rationing or shortages in many parts of Colombia.

¶9. Colombia uses three types of gasoline for fuel consumption; regular, diesel, and a special high octane fuel for certain trucks. Regular gas is used by 46 percent of all motor vehicles, diesel by 37 percent, and special high octane gas by 4 percent.

¶10. Gasoline for domestic consumption in Colombia is refined by Ecopetrol at refineries in Cartagena and Barrancaberjama along with very small refineries (less than 2000 barrels a day) in Orito, Putumayo and in Tibu, Norte de Santander. Energy is currently exported out of Covenas, Barranquilla, Cartagena and Santa Marta, all on the Atlantic/Caribbean coast. Despite two major ports (Buenaventura and Tumaco) on the Pacific coast, no energy products are exported from the Pacific. The biggest challenge to energy exportation and domestic distribution is the complicated geography of Colombia and lack of suitable land transport infrastructure. Energy is currently being transported via pipelines, one-lane highways, or in the case of coal, railroads.

¶11. Colombia's four major industrial cities include Bogota, Barranquilla, Cali, and Medellin. Manufactured goods include clothing and textiles, leather products, chemicals and petrochemicals, processed food and beverages, cement and steel products. Domestic industrial infrastructure is adequate for the further development of biofuel alternatives.
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